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# Michigan State AFL-CIO

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## **Statement of Ken Fletcher Legislative Director of the Michigan State AFL-CIO**

### **Before the House Employment Relations, Training and Safety Committee on SB 171-174**

**March 1, 2005**

The Michigan State AFL-CIO is a federation of 49 unions representing over one million active and retired union members and their families in Michigan.

As you know, last year Congress passed legislation requiring states to crack down on businesses who are not paying their fair share of unemployment taxes by using scams that are commonly called SUTA dumping.

Sometime shortly after that act of Congress, the Granholm administration came to the Michigan State AFL-CIO seeking our support for what they hoped would be a bi-partisan package of bills to close the loop holes in Michigan law that made SUTA dumping possible.

From what we understand, they had similar conversations with the Michigan Manufacturers Association, the Employers Unemployment Compensation Council, The Michigan Chamber of Commerce, The Economic Alliance for Michigan and other business and labor groups.

At that time, we expressed our concern about the inadequate level of unemployment compensation benefits in Michigan and our desire to address that problem as part of any package of bills to fix the SUTA dumping problem.

Since there originally appeared to be an agreement by the business community just to run a clean set of bills to fix the SUTA dumping problem, we reluctantly agreed to set aside our desire to raise unemployment benefits as part of this package.

Since the legislature has decided not to support the administration's proposal and has instead allowed the Michigan Chamber of Commerce to draft their own package of bills, we can now feel free to speak out on the issue of unemployment benefits.

Let me make clear the position of the Michigan State AFL-CIO on this package of bills. We do not, nor will we ever, support any legislation that addresses the issue of SUTA dumping without also addressing the woefully inadequate level of unemployment compensation benefits in Michigan.

I will not attempt to debate the merits of the Governor's SUTA Dumping package vs. the Chamber of Commerce SUTA dumping package. However, since the Michigan State AFL-CIO is concerned about there being enough money in the Unemployment Trust Fund to pay benefits, we feel that the legislature should close every and all possible loopholes that can be used to cheat the system. For the legislature to do anything less would be for you to condone fraud. Just because the Michigan Chamber of Commerce has decided to become the champion of tax cheaters, frauds and criminals, does not mean that the Michigan Legislature should do the same.

Recently there was a debate over the scope of the SUTA dumping problem. We feel that such a debate is irrelevant. It does not matter if it is one business or one thousand businesses, fraud should be stopped. Period.

Some have expressed concern over the level of the Unemployment Trust Fund and the fact that the SUTA dumping problem may have kept the trust fund balance below the level that would have triggered a 10% tax reduction for business. We too are concerned about the trust fund balance. That is why we feel that the business community has already received far too many unemployment tax cuts over the past decade.

It has long been the history of Michigan for our recessions to run deeper and longer than they do on the national level. That has been the case during Republican and Democratic administrations.

That is why it is necessary during good economic times to build up a large reserve in the Unemployment Trust fund to carry us through tough times like we are now facing.

Unfortunately, unemployment tax cuts that were enacted in 1995 prevented the trust fund from building up adequate reserves. From 1995 until 2003, the business community received about \$1.3 billion in tax cuts. As if that was not enough, in 2002, the legislature reduced the taxable wage base from \$9,500 to \$9,000. That act has cost the trust fund another \$200 million. All together, the business community has received over \$1.5 billion in tax cuts over the past decade.

The same legislative act that cut taxes for employers in 1995 also cut and capped unemployment benefits and reduced eligibility for laid off workers. Before the 1995 cuts, the maximum benefit level was set at 58% of the average weekly wage in Michigan. Now it is locked in at \$362 a week, which is at least \$68 a week too low. Those who do not qualify for the maximum benefit rate had their benefit cut in 1995 and those individuals did not receive a benefit increase in 2002.

In order to restore fairness to the unemployment system in Michigan, we call for the following changes.

- The maximum benefit level should be raised by at least \$68 a week.
- Indexing should be restored to protect the buying power of unemployment benefits.
- Benefits should be increased from 4.1% of high quarter wages to at least 4.5% so that those not at the maximum benefit level will receive a 10% increase in benefits.
- The unfair earnings offset formula should be modified to allow people to take work when available.
- Eligibility standards should be revised to make it easier for part-time, low-wage and locked out workers to receive benefits.
- Unemployment benefits should be exempt from state income taxes.
- Severance pay should no longer be considered wages; as a result, severance pay would not reduce weekly unemployment benefits.

These changes would be fair and reasonable considering the fact that most states in the Great Lakes Region provide more generous unemployment benefits. Ohio, Illinois, Pennsylvania, Minnesota, as well as Indiana all have higher maximum benefit rates than Michigan. Many other states also have higher maximum benefits than Michigan.

In conclusion, we strongly encourage the legislature to do the right thing and stop all forms of employer fraud through SUTA dumping scams and to increase unemployment benefits for all laid-off workers at the same time.

Thank you very much for your consideration of this proposal.